(6)

No. 01-408

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.,

Petitioner,

—against—

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF

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CORPORATE DISCLOSURE STATEMENT

Petitioner's corporate disclosure statement was set forth at page *iii* of its Petition for a Writ of Certiorari, and there are no amendments to that statement.

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Respondent's Brief in Opposition does not controvert that this case raises — clearly and starkly — the questions of appellate jurisdiction identified in the Petition.

Respondent's Brief in Opposition also does not controvert that the jurisdictional questions raised by this case are of fundamental and general significance, and affect literally every federal court plaintiff whose adversary could assert a patent law counterclaim of any nature.[1]

At issue in this case is the continuing viability of a long-settled principle:

> Of course, the party who brings a suit is master to decide what law he will rely upon, and therefore does determine whether he will bring a "suit arising under" the patent or other law of the United States by his declaration or bill. That question *cannot depend upon the answer. . . .*

The Fair v. Kohler Die & Speciality Co., 228 U.S. 22, 25 (1913) (Holmes J.) (emphasis added).

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1. Respondent asserts that its counterclaim against Petitioner in this case was "compulsory" (Resp. Br. at 3). The Federal Circuit has made clear, however, that its claimed jurisdiction under 28 U.S.C. § 1295(a)(1) is not limited to cases in which a defendant's answer includes a "compulsory" patent counterclaim falling within Fed. R. Civ. P. 13(a), but also extends to cases in which a defendant's answers includes a "permissive" patent counterclaim falling within Fed. R. Civ. P. 13(b). *See DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999). Thus, even assuming, for purposes of argument, that Respondent's counterclaim were properly characterized as "compulsory," it is clear that no such assumption formed any basis of the Federal Circuit's decision in this case.

The Court of Appeals for the Federal Circuit has improperly rejected the above-quoted principle,[2] and has thereby acted to displace vast sectors of regional circuit jurisdiction over appeals from cases arising under antitrust, contract, copyright, trademark, and myriad other laws, both state and federal.

It is uncontroverted that Petitioner commenced this civil action[3] and decided, very deliberately, to rely on the law and

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2. Respondent's Brief in Opposition notably fails to cite *The Fair* and makes no attempt to reconcile the decision below with *The Fair* or any of this Court's other precedents holding that "the plaintiff is absolute master of what jurisdiction he will appeal to." *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986) (quoting *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915) (Holmes, J.)

3. The instant Case No. 01-408 was commenced by Petitioner as an original civil action in the U.S. District Court for the District of Kansas at Wichita, where Respondent is headquartered. The instant case is entirely separate and distinct from the terminated ITC investigation referred to on pages 2-3 of Respondent's Brief in Opposition (see Petition at 3 n.1).

While extraneous to the jurisdictional issues presented by the Petition, it may be noted that: (1) Respondent sought, and was denied, a stay of proceedings in this action pending determination of the ITC investigation; (2) after summary judgment was granted to Petitioner in this action, Respondent moved for voluntary dismissal of the ITC investigation which was then terminated in June 2000; and (3) contrary to Respondent's suggestion (Resp. Br. at 3 n.1), Petitioner sought (and was denied; see Petition at 3 n.1) a stay of the ITC proceedings only insofar as they threatened to oust the District Court of jurisdiction to adjudicate Petitioner's claims arising under the Lanham Act. Respondent has never pursued its alleged patent counterclaim in the ITC or in the District Court.

a final judgment of the Court of Appeals for the Tenth Circuit,[4] under which this Respondent had made false and actionable statements to retailers on the eve of a major housewares industry trade show. Petitioner sought, not merely a "declaration" as suggested by Respondent (Resp. Br. at 3), but an injunction against false advertising by Respondent which the District Court granted.[5]

On March 8, 2000, the District Court granted summary judgment in favor of Petitioner on its First Cause of Action, holding that Petitioner's "sale of its fan and heater products does not infringe any valid or enforceable 'trade dress' claimed by [Respondent] under 15 U.S.C. §§ 1051 *et seq.*" *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 93 F. Supp. 2d 1140, 1140-41 (D. Kan. 2000). The District Court's summary judgment was then severed from the remainder of the case pursuant to Fed. R. Civ. P. 54(b), as was done in the case of *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 519 U.S. 873 (1996). But in direct conflict with the Ninth Circuit's decision in *Denbicare*,[6] the Respondent appealed the District Court's

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4. *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995), *cert. denied*, 516 U.S. 1067 (1996).

5. The preliminary injunction which the District Court issued against Respondent on January 4, 2000, remains in effect to this day.

6. Contrary to Respondent's suggestion (Resp. Br. at 12-13), the decision below conflicts squarely with the Ninth Circuit's decision in *Denbicare*. In *Denbicare*, the Ninth Circuit exercised appellate jurisdiction to hear a partial final judgment of non-patent claims entered pursuant to Fed. R. Civ. P. 54(b), notwithstanding that the defendant had asserted a counterclaim arising under federal patent law and there remained pending, in the District Court, a live controversy whether the defendant was entitled to do so. 84 F.3d at 1146-47. The Ninth Circuit exercised appellate jurisdiction in *Denbicare*, not because all patent claims had been "dismissed" as

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"trade dress" judgment to the Federal Circuit rather than the Tenth Circuit.

It is uncontroverted the District Court's final judgment in this case does not adjudicate, directly or indirectly, any claim "arising under" federal patent law, or even any question of federal patent law. It is also uncontroverted that Petitioner's complaint in the District Court did not allege any claim "arising under" federal patent law. And yet Petitioner — the prevailing plaintiff and judgment-winner in the District Court — has had its Lanham Act judgment summarily vacated by the Court of Appeals for the Federal Circuit, on a theory that regional circuit jurisdiction over Petitioner's suit was somehow cut off by the Respondent's service of an answer to Petitioner's complaint which contained a patent counterclaim.

In its Brief in Opposition, the Respondent does not suggest that the Federal Circuit's exercise of jurisdiction in this case was unusual or based on any special facts peculiar to the present case. On the contrary, the Respondent affirmatively argues that the decision below "follows the Federal Circuit's usual course of proceeding" (Resp. Br. at 10).

The present case thus clearly — and starkly — draws in controversy what Respondent acknowledges is the Federal Circuit's recently-adopted, "usual course" of exercising

(Cont'd)

wrongly argued by Respondent, but because the partial final judgment in question — which disposed of no patent claim — fell outside both the clear language and the legislative intent behind 28 U.S.C. § 1295(a)(1). *Id.* at 1147-48. *See also Unique Concepts, Inc. v. Manuel*, 930 F.2d 573, 575 (7th Cir. 1991) (Easterbrook, J.) (noting but not deciding question "whether Rule 54(b) can be used to direct an appeal to a particular circuit").

appellate jurisdiction under 28 U.S.C. § 1295(a)(1) based on the contents of a defendant's answer, notwithstanding that of a plaintiff's well-pleaded complaint may state no claim "arising under" federal patent law. *See DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999). Respondent has not controverted that the Federal Circuit's interpretation of 28 U.S.C. § 1295(a)(1) impacts any and every type of federal or diversity case in which a defendant might assert either a permissive or a compulsory counterclaim purportedly arising under federal patent law.

While arguing that the Federal Circuit's interpretation of 28 U.S.C. § 1295(a)(1) "adheres the sound reasoning of this court" (Resp. Br. at 5), the Respondent conspicuously fails to cite the principle that "the plaintiff is absolute master of what jurisdiction he will appeal to." *Healy v. Sea Gull Speciality Co.*, 237 U.S. 479, 480 (1915) (Holmes, J.), *quoted in Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986). The Federal Circuit's interpretation of the "well-pleaded complaint rule" is antithetical to *Healy*, *Merrell Dow*, *The Fair*, and other decisions of this Court cited in the Petition (Petition at 6 n.3, 10-13), and conflicts with that of every other Court of Appeals which has ever considered whether a defendant's counterclaim can change whether a plaintiff's lawsuit is one "arising under" federal law for jurisdictional purposes. *E.g.*, *Takeda v. Northwestern Nat'l Life Ins. Co.*, 765 F.2d 815, 821-22 (9th Cir. 1985).

Respondent suggests (Resp. Br. at 6-9) that the "well-pleaded complaint rule" is somehow limited to "removal jurisdiction" (*id.* at 6) or " 'removal' cases" (*id.* at 7 n.3). But as was noted in the Petition (Petition at 13 n.6), the distinction suggested by Respondent has no basis in this Court's precedents. "The well-pleaded complaint rule applies to the original jurisdiction of the district courts as well as to

their removal jurisdiction." *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 10 n.9 (1983).[7]

Thus, in *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808-09 (1988), this Court cited and relied on what Respondent calls "removal cases" (Resp. Br. at 7 n.3) in the course of holding that the appellate jurisdiction of the Federal Circuit was circumscribed by the "arising under" jurisprudence developed by this Court in the context of cases involving both removal under 28 U.S.C. § 1441 and original federal question jurisdiction under 28 U.S.C. § 1331.

Respondent attempts to distinguish the clear language and holding of *Christianson* by reference to certain comments made in a concurring opinion in that case (Resp. Br. at 6). The cited concurrence, however, did not command a majority of the Court, which rejected the "policy" argument re-advanced by Respondent here (486 U.S. at 813-14):

> Colt might be correct (although not clearly so) that Congress' goals would be better served if the Federal Circuit's jurisdiction were to be fixed "by reference to the case actually litigated," rather than by an ex ante hypothetical assessment of the elements of the complaint that might have been dispositive. . . . Congress determined the relevant focus, however, when it granted jurisdiction to the Federal Circuit over "an appeal from . . . a district court . . . if the jurisdiction of that court was based

7. Contrary to Respondent's assertion (Resp. Br. at 7), the Petitioner quotes accurately from this Court's decision in *Franchise Tax*. The Court in *Franchise Tax* noted that commentators had proposed that "some mechanism be established to permit removal of cases in which a federal defense may be dispositive," but that "those proposals have not been adopted." 463 U.S. at 10 n.9. That is to say, as Petitioner originally noted (Petition at 9), the position urged by Respondent in this case is simply not the law.

> on Section 1338." 28 U.S.C. § 1295(a)(1) (emphasis added).
>
> Since the District Court's jurisdiction is determined by reference to the well-pleaded complaint, not the well-tried case, the reference to the Federal Circuit jurisdiction must be the same. The legislative history of the Federal Circuit's jurisdictional provisions confirms that focus. *See, e.g.*, H.R. No. 97-312, *supra*, at 41 (cases fall within the Federal Circuit's patent jurisdiction "in the same sense that cases are said to 'arise' under federal law for purposes of federal question jurisdiction").

The Federal Circuit thus erred in concluding that a well-pleaded complaint controls the existence of "arising under" jurisdiction in the original jurisdiction and removal contexts, but not in the context of appellate jurisdiction under 28 U.S.C. § 1295(a)(1). *See Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 739-40 & n.4 (Fed. Cir. 1990) (en banc). It is undoubtedly true, as stated by Respondent, that in taking jurisdiction of Respondent's appeal in this case, the Federal Circuit followed "its own usual course of judicial proceeding" and its "normal procedure" (Resp. Br. at 10, 12). But that fact supports granting, not denying, the Petition.

In *Christianson*, this Court re-stated its long-held rule that "a case raising a federal patent-law defense does not, for that reason alone, 'arise under' patent law, 'even if the defense is anticipated in the plaintiff's complaint, and even if both parties admit that the defense is the only question truly at issue in the case.' " *Christianson*, 486 U.S. at 809 (quoting *Franchise Tax Bd.*, 463 U.S. at 14). Thus for example, an action for breach of a contract to pay royalties

on the sale of products embodying a patented invention is not one "arising under" federal patent law; and this is so even if the defendant asserts, by way of defense, that the allegedly licensed patent is invalid. *E.g.*, *Pratt v. Paris Gaslight & Coke Co.*, 168 U.S. 255, 259 (1897). But under the Federal Circuit's re-interpretation of the "well-pleaded complaint rule," a defendant sued for breach of contract can readily manufacture Federal Circuit jurisdiction by including in its answer, not merely an affirmative defense of invalidity, but a counterclaim for a declaratory judgment of invalidity. Respondent's suggested distinction between patent law "defenses" and "counterclaims" finds no support in this Court's decisions, and is illusory besides.

Nor can the decision below be justified on the basis of authorities holding that a jurisdictional defect in a plaintiff's complaint will not preclude adjudication of a counterclaim which has an independent basis of jurisdiction (Resp. Br. at 8-9). Petitioner was the prevailing plaintiff in the District Court. No question is presented whether a patent counterclaim would support Federal Circuit jurisdiction if plaintiff's claims had all been defective.

CONCLUSION

For the reasons set forth above and in Holmes's original petition, a writ of certiorari should issue to review the judgment of the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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